



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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For Immediate Release

Thursday, March 27, 2003

## Tax Relief Bill Pays Tribute to U.S. Service Men and Women

WASHINGTON — Sen. Chuck Grassley, chairman of the Committee on Finance, today applauded unanimous Senate approval of legislation he co-authored to ensure fair tax treatment for men and women serving in the U.S. military and foreign service.

“Our nation is relying on the military in unique ways,” Grassley said. “We’re at war with Iraq. We face the challenge of defeating terrorism at home and abroad. We remain vigilant over the renewed freedom we brought to Afghanistan. Our enlisted men and women are front and center for all of these tasks. The sad fact is that right now these folks don’t get a fair shake under the federal tax code. They risk their lives. They shouldn’t have to risk their finances, too.”

The *Armed Forces Tax Fairness Act of 2003*, sponsored by Grassley and Sen. Max Baucus of Montana, ranking member of the Senate tax-writing committee, today passed the Senate on a bipartisan vote of 97 to 0. The measure, which received unanimous Finance Committee approval on Feb. 5, would remedy specific tax problems for personnel in the uniformed services and foreign service, including the following.

In 1997, Congress changed the tax code to exclude gains from the sale of a person’s home from the capital gains tax, below certain thresholds. To qualify, an individual needs to live in the home for at least two of the five years before the sale. Grassley said this works fine for most people, but it’s not realistic for a lot of people serving in the military who are frequently transferred. The legislation passed today would establish a special rule for determining the gain that can be excluded with the sale of these homes.

Right now, if a member of the armed services dies on active duty, the federal government pays the surviving spouse a death benefit of \$6,000. Grassley said that only half of this benefit is now excluded from taxable income. The tax bill passed today would exclude the entire \$6,000 payment.

Many National Guard members and reservists travel for weekend drills and spend their own money for travel and lodging, Grassley said. As a practical matter, these expenses are generally non-deductible for one of two reasons: either the reservist is part of the 75 percent of the population that doesn’t itemize, or the expenses don’t exceed two percent of the reservist’s adjusted gross income. The bill passed today establishes an above-the-line deduction for unreimbursed travel expenses so reservists aren’t put in a position of having to subsidize their own training.

Recent media reports describe the nation’s increased reliance on reservists and National Guard members. According to The New York Times, two-thirds of the military police battalions -- an

increasingly important mission in an era of heightened terrorist threat -- are reservists.

This week, the Army, Air Force and Marine Corps each announced an increase of reservists on active duty in support of the partial mobilization. The Navy announced a slight decrease. The net collective result is 4,194 more reservists than last week. The total number of reserve personnel currently on active duty in support of the partial mobilization for the Army National Guard and Army Reserve is 150,071; Naval Reserve, 9,494; Air National Guard and Air Force Reserve, 33,365; Marine Corps Reserve, 20,089; and the Coast Guard Reserve, 3,792. This brings the total number of reservists and National Guard members on active duty to 216,811.

There are 3,459 Iowa National Guard members and reservists currently on active duty. There may be others who live in Iowa but belong to units in neighboring states. The Iowan who just died in Iraq was a Marine reservist from the Peoria, Ill.-based 6th Engineer Support Battalion.

Under current law, workers can exclude from their taxable income up to \$5,000 of employer-provided child-care expenses. A separate provision of the federal tax code excludes from income benefits provided to members of the uniformed services, but it's unclear whether child-care benefits were intended to be included in that provision. The military provides extensive child-care benefits. The tax bill passed by the Senate today would clarify that child-care benefits provided to military personnel would be excluded from income.

The bill passed today also provides that military appointments would be treated as scholarships for the purposes of educational savings accounts. This means that families would not face a tax penalty for planning ahead for secondary education in the event that a child has the opportunity to serve at one of the military academies.

The bill's cost of \$1.1 billion over ten years is completely offset by an extension of Internal Revenue Service user fees on certain products, a provision authorizing the IRS to enter into agreements that provide for partial payment, and reforming the tax treatment of individuals who expatriate.

"This bill pays respect to the men and women making sacrifices and, in many cases, risking their lives to protect and defend freedom," Grassley said. "I hope the Senate and House will quickly resolve the differences in their respective bills, allowing for final passage and getting these tax measures signed into law as soon as possible. It's important to remember that the bill would be in effect for the 2003 tax year, so the military men and women serving our country now would be able to take advantage of this new tax fairness when they file their 2003 taxes next year."

Last year, in the last Congress, the Finance Committee and then the full Senate passed a very similar bill to the legislation passed today. That bill, also co-authored by Grassley, underwent changes in the House of Representatives and never received final approval before Congress adjourned for the year.